
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

SUPPLEMENTARY EXAMINATION PAPER

JULY 2015

DEGREE/YEAR OF STUDY:	BACHELOR OF COMMERCIAL LEVEL 5
TITLE OF PAPER	: MANAGEMENT ACCOUNTING II
COURSE CODE	: IDE AC 414 (S) JULY 2015
TOTAL MARKS	: 100 MARKS
TIME ALLOWED	: THREE (3) HOURS
INSTRUCTIONS	1 There are three (3) questions. Answer all.
	2 Begin the solution to each question on a new page.
	3 The marks awarded for each question are indicated at the end of the question.
RECOMMENDATION	1 Reading time should not exceed fifteen minutes

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL NOTES: The use of a non-programmable calculator is allowed

QUESTION 1

Bitten Ltd manufactures and sells a single product at a unit selling price of E25. In constant-price-level terms its cost structure is as follows:

Variable costs:

Production materials E10 per unit produced

Distribution E1 per unit sold

Semi-variable costs:

Labour E5,000 per annum, plus E2 per unit produced

Fixed costs:

Overheads E5,000 per annum

For several years Bittern has operated a system of variable costing for management accounting purposes. It has been decided to review the system and to compare it for management accounting purposes with an absorption costing system.

As part of the review, you have been asked to prepare estimates of Bittern's profits in constant-level terms over a three-year period in three different hypothetical situations, and to compare the two types of system generally for management accounting purposes.

- a) In each of the following three sets of hypothetical circumstances, calculate Bittern's profit in each of years T1, T2 and T3, and also in total over the three year period, T1, to T3, using first a variable costing system and then a full-cost absorption costing system with fixed cost recovery based on a normal production level of 1000 units per annum:

i. Stable unit levels of production, sales and inventory

	T1	T2	T3
Opening stock	100	100	100
Production	1000	1000	1000
Sales	1000	1000	1000
closing stock	100	100	100

- ii. Stable unit levels of sales, but fluctuating unit levels of sales and inventory
Of production and inventory

	T1	T2	T3
Opening stock	100	600	100
Production	1500	800	700
Sales closing stock	1000	1000	1000
	600	400	100

- iii. Stable unit levels of sales, but fluctuating unit levels of sales and inventory
Of production and inventory

	T1	T2	T3
Opening stock	100	600	400
Production	1000	1000	1000
Sales closing stock	500	1200	1300
	600	400	100

(Note that all the data in i-iii are volumes, not values)

- b) Write a short comparative evaluation of variable and absorption costing systems for management accounting purposes, paying particular attention to profit measurement, and using your answer to illustrate your arguments if you wish.

Total:

35 Marks

QUESTION 2

A company in the civil engineering industry with headquarters located 22 miles from London undertakes contracts anywhere in the United Kingdom.

The company has had its tender for a job in North East England accepted at E288 000 and work is due to begin in March. However, the company has also been asked to undertake a contract on the South Coast of England. The price offered for this contract is E352 000. Both of the contracts cannot be taken simultaneously because of constraints on staff site management personnel and on plant available. An escape clause enables the company to withdraw from the contract in the North East; provided notice is given before the end of November and an agreed penalty of E28 000 is paid.

The following estimates have been submitted by the company's quantity surveyor:

Cost estimates	North East E	South Coast E
Materials:		
In stock at original cost, Material X	21 600	
In stock at original cost, Material Y		24 800
Firm orders placed at original cost, Material X	30 400	
Not yet ordered, Material X	60 000	
Not yet ordered – current cost, Material Z		71 200
Labour hired locally	86 000	110 000
Site Management	34 000	34 000
Staff accommodation and travel for site management	6 800	5 600
Plant on site depreciation	9 600	12 800
Interest on capital, 8%	<u>5 120</u>	<u>6 400</u>
Total local contract costs	253 520	264 800
Headquarters costs allocated at rate of 5% on total contract costs	<u>12 676</u>	<u>13 240</u>
	266 196	278 040
Contract price	<u>288 000</u>	<u>352 000</u>
Estimated profit	<u>21 804</u>	<u>73 960</u>

Notes:

1. X, Y and Z are three building materials. Material X is not in common use and would not realize much money if re-sold; however, it could be used on other contracts but only as a substitute for another material currently quoted at 10% less than the original cost of X. The price of Y, a material in common use, has

doubled since it was purchased; its net realizable value if resold would be its new price less 15% to cover disposal costs. Alternatively it could be kept for use on other contracts in the following financial year.

2. With the construction industry not yet recovered from the recent recession, the company is confident that manual labour, both skilled and unskilled, could be hired locally on a subcontracting basis to meet the needs of each of the contracts.
3. The plant which would be needed for the South Coast contract has been owned for some years and E12 800 is the year's depreciation on a straight line basis. If the North East contract is undertaken, less plant will be required but the surplus will be hired out for the period of the contract at a rental of E6 000.
4. It is the company's policy to charge all contracts with notional interest at 8% on estimated working capital involved in contracts. Progress payments would be receivable from the contractee.
5. Salaries and general costs of operating the small headquarters amount to about E108 000 each year. There are usually ten contracts being supervised at the same time.
6. Each of the two contracts is expected to last from March to February which, coincidentally, is the company's financial year.
7. Site management is treated as a fixed cost.

You are required as a Management Accountant to the company to:

- a) Present comparative statements to show the net benefit to the company of undertaking the more advantageous of the two contracts
- b) Explain the reasoning behind the inclusion in (or omission from) your comparative financial statements, of each item given in the cost estimates and the notes relating thereto.

Total:

35 Marks

Question 3

Liso Ltd operates on Optical shop. The company's recent financial statements and records reveal the following:

	E
Average selling price per pair of glasses	700
Variable expenses per pair:	
Lenses and frames	280
Sales commission	120
Variable overhead	80
Annual fixed costs:	
Admin expenses	180,000
Selling expenses	480,000

The company's effective tax rate is 40%

Susan, the company director has asked you as a cost accountant to answer the following questions about the business

- i)
 - a) what is the break-even point in pairs of glasses
 - b) in money (Emalangeneni)?
- ii)
 - a) how many pairs of glasses would have to be sold to produce E800,000 of pretax earnings?
 - b) And how much revenue must be generated to produce the E800, 000 of pretax earnings
- iii)
 - a) How many pairs of glasses must be sold to generate E800,000 of after tax profit
 - b) How much revenue must be generated to produce this after-tax profit?

- iv) Susan is considering adding a lens-grinding lab, which will save E60 per pair of glasses in lens cost, but will raise annual fixed costs by E800,000 she expects to sell 50,000 pairs of glasses. Should she make this investment.
- v) A marketing consultant told Susan that she could increase the number of glasses sold by 30% if she would lower the selling price by 10% and spend E200,00 on advertising. She has been selling 30,000 pairs of glasses. Should she accept this advice?

Total:

35 Marks